



# **TRAINER'S GUIDE**

## **The ABCs of Credit Card Finance – Essential Facts for Students**

**2005**

**Carol A. Carolan, Ph.D.**

Dear Trainer:

Each year we upgrade our educational materials so that we can continue to improve the effectiveness of our credit card literacy program. We appreciate your participation and recognize your role in making this a successful learning experience.

Because trainers personally interact with the students while presenting the materials, we have found that their feedback is particularly valuable.

Please take a moment to provide us with your suggestions and comments by emailing us at [feedback@csece.com](mailto:feedback@csece.com).

Thank you,

A handwritten signature in cursive script, appearing to read "Carol".

Carol A. Carolan, Ph.D.

## PRESENTING THE ABCs OF CREDIT CARD FINANCE

Although there is an abundance of pertinent and useful information to teach students about credit cards, there are several points that are critical. These items are listed below.

At the beginning of the program, ask students to write down these facts to emphasize their importance.

1. Charge only what you know you can afford to repay.
2. Purchases cost more when you use your credit card and keep a rotating balance (i.e., you don't pay your bill in full each month) because you pay interest on everything you buy.
3. Pay your credit card bill in full each month. If you can't pay in full, always make more than the minimum monthly payment.
4. Don't spend over your credit limit.
5. Pay your bills on time. Your credit score is negatively affected when you make late payments.
6. Learn how to protect your credit rating ... it's your financial resume.
7. Never use one credit card to pay another (i.e., don't take out a cash advance on one card to pay another). In fact, obtain only one card to avoid many problems.

## SLIDE 1 - TITLE PAGE

### SUGGESTED INTRODUCTION TO MATERIAL

#### OPENING STATEMENT TO CLASS

*When used and managed properly, credit cards offer us convenience, a sense of security, and allow us to build a healthy credit history. Irresponsible credit card use can result in excessive debt and can produce a poor credit score and become a long-term financial liability.*

#### SUGGESTED QUESTIONS TO ENGAGE STUDENTS

*How many of you already have credit cards?*

*How old were you when you received your first card?*

*Did your parents co-sign for you?*

*How many of you plan to obtain a credit card if you don't already have one?*

*Why?*

*How many of you have already received credit card education?*

*Was it helpful?*

## SLIDE 2 - MULTIPLE CHOICE QUESTION - DEFINITION OF CREDIT (Students are to answer all multiple choice questions aloud to promote class participation.)

Correct Answer = D

After students respond, state the definition of credit:

*Credit is a system of doing business by trusting that a person will pay at a later date for goods or services supplied to him today.*

## SLIDE 3 - MULTIPLE CHOICE QUESTION - CREDIT CARDS FUNCTION AS

Correct Answer = A

Many students do not understand the simple fact that when they use their credit cards, they are **borrowing** money to make their purchases ... it is a **loan**.



## **SLIDE 4 - MULTIPLE CHOICE QUESTION - BUDGETS**

Correct Answer = B

## **SLIDE 5 - PLANNING A BUDGET**

(Page 2 in the primer)

If time allows, review with students the importance of creating a budget. You may want to suggest that students take a minute or two to fill in the budget form.

If there is insufficient time to review the budgeting section, a suggested statement to students is:

*Please turn to page 2 in your primers where you will find a sample budget. Students can benefit immensely from having a clear understanding of their financial needs and spending habits. By creating a realistic budget, an individual has a personal plan for spending and saving money. Giving your financial behavior a structure can provide a sense of comfort and guidance, so if you don't already have a budget, please take the needed time outside of class to complete this exercise.*

## **SLIDE 6 - ESSENTIAL INFORMATION**

(Page 3 in the primer)

Make a statement to the class that credit card education can be grouped into two main categories:

1. Credit cards costs, which includes how to choose a card.
2. Responsible credit card behaviors.

## **SLIDE 7 - CREDIT CARD COSTS**

(Page 3 in the primer)

1. **ANNUAL FEES** - Banks may charge an annual fee for the privilege of using their card. It is becoming more common to find cards without an annual fee and banks are often willing to waive the fee if you simply ask them to do so.

## **SLIDE 8 - MULTIPLE CHOICE QUESTION - APR STANDS FOR**

(Continuation of Credit Card Costs)

Correct Answer = B

2. **APR** - Interest rates are expressed as an annual percentage rate (APR).

- Financial institutions charge card holders monthly interest on credit card account balances.
- The higher the APR, the more money you pay to the bank.
- APRs can be fixed or variable.
- Your bank can change a fixed APR with 15 days' notice.
- A variable rate APR can change without notice. It is based on a published index, like the prime interest rate, plus a few percentage points more, which is determined by the credit card issuer.
- Students should look for a card with a low APR.

### INTEREST CALCULATION

- Credit card issuers can use different methods to calculate interest.
- The most common method (and consumer friendly) is the **average daily balance method** and calculations are made as follows:
  - Charges and payments are tallied on a daily basis to determine how much is owed each day. These totals are then added and divided by the number of days in the month. This figure reflects the average daily balance.
  - To determine the "monthly periodic rate," the APR is divided by 12.
  - The average daily balance is multiplied by the monthly periodic interest rate to determine the interest charge for the month.

### **SLIDE 9 - CREDIT CARD COSTS** (Continuation of Credit Card Costs) (Page 4 in the primer)

3. **CASH ADVANCES** - These are cash loans you can get with your credit card. They're expensive, and as a rule, **should be avoided**.
  - They typically have an up-front fee applied when the money is issued.
  - They typically have a higher APR.
  - Usually no grace period is allowed and you are charged interest from the moment you receive your advance.
  - If you keep a revolving balance and have both purchases and a cash advance on your account, it is difficult to pay off your cash advance



because of the way payments are applied. When you make a payment, first, finance charges are paid. What's left over is then applied to the principles of both balances using a split, such as 80%-20%. That is, the balance with the low APR (typically, purchases) would get 80% of what's remaining and the balance with the higher APR (typically, the cash advance) would be paid down by 20% of what's remaining. This keeps the balance with the high APR rotating month-after-month.

4. **COURTESY CHECKS** - These are typically mailed to one's home. They're similar to cash advances and should be avoided. Shred these checks before placing them in the trash.

5. **LOW INTEREST TEASER RATES**

- The low interest rate is time-limited. Determine how long the low rate will be in effect.
- Once the time limit has passed, how much will the APR increase?
- What happens if one or two late payments are made? Usually, a higher penalty rate will be applied.

**SLIDE 10 - CREDIT CARD COSTS** (Continuation of Credit Card Costs)  
(Page 4 in the primer)

6. **BALANCE TRANSFERS** - Low interest teaser rates are often associated with balance transfers. Before transferring a balance, determine the following:
- Is there a balance transfer fee? How much?
  - Does the teaser APR apply to **both** the transferred balance as well as new purchases?
  - How are payments applied? Is it similar to cash advances described above? That is, if you have an account with new purchases at one APR and a transferred balance at another APR, how will your payment be applied to these two balances?

**SLIDE 11 - MULTIPLE CHOICE QUESTION - IF YOU PAY YOUR CREDIT CARD BILL LATE** (Continuation of Credit Card Costs)  
Correct Answer = D

7. **LATE FEES** - When your credit card payment is received late, a late payment fee will be assessed. Typically, this amount is either \$29 or \$35 (or higher), but

some banks have a tiered fee based on the amount of the balance. You may also be penalized with a higher APR and your credit history may be negatively impacted because late payments are typically reported to the credit reporting agencies. (This usually happens after two late payments.)

## **SLIDE 12 - CREDIT CARD COSTS (Continuation of Credit Card Costs)**

(Page 4 in the primer)

8. **PENALTY RATES** - Banks will typically raise your APR if you make late payments or skip payments. Some credit card issuers will raise your APR if you go over your credit limit. Penalty rates are significantly higher than normal APRs.

## **SLIDE 13 - MULTIPLE CHOICE QUESTION - WHEN YOU GO OVER YOUR CREDIT LIMIT (Continuation of Credit Card Costs)**

Correct Answer = D

9. **OVER-CREDIT LIMIT FEES** - Banks will allow you to spend over your credit limit, but will assess you a fine every month until your balance is brought down to its credit limit. Monthly fines are typically either \$29 or \$35. Many banks will also increase your interest to a higher penalty APR.

## **SLIDE 14 - HOW TO CHOOSE THE BEST CREDIT CARD FOR YOUR NEEDS (CONVENIENCE USERS)**

(Page 5 in the primer)

**ATTENTION INSTRUCTORS:** Items 1 through 4 introduce this section.

1. All credit cards are **not created equally**. Card issuers are free to offer different services and different annual percentage rates.
2. Shop around for the best rates. A good Internet site for this information is: **[www.bankrate.com](http://www.bankrate.com)**.
3. Cards obtained on campus often do not have the best rates.
4. Determine in advance whether you will be a "convenience user" or a "revolver."
5. **CONVENIENCE USERS**
  - Pay their credit card balances in full each month.



- Pay no interest on their purchases because they are able to take advantage of their bank's **grace period**, which is the length of time after receipt of a credit card statement to the payment due date.
- This is the most desirable form of payment for the consumer.

### **SLIDE 15 - REVOLVING BALANCE**

(Page 5 in the primer)

When you keep a **revolving balance** on your account, you:

1. Don't pay off your entire credit card bill each month. Instead, you make partial payments.
2. Pay interest on all your purchases.
3. Cannot take advantage of a grace period.

### **SLIDE 16 - WHEN CHOOSING A CREDIT CARD, LOOK FOR ...**

(Page 5 in the primer)

1. A low APR (not a teaser rate).
2. Convenience users should look for a long grace period.
3. No annual fee.
4. Interest calculated using the average daily balance method.

### **SLIDE 17 - TRUE OR FALSE QUESTION - IT'S BEST TO HAVE MORE THAN ONE CREDIT CARD**

Correct Answer = False (This slide leads into the next section.)

### **SLIDE 18 - DOs AND DON'Ts ONCE YOU HAVE A CREDIT CARD**

(Page 6 in the primer)

1. Students should restrict themselves to **just one** credit card. If a student has only one credit card, many problems can be avoided. The more credit one has, the more tempting it can be to overspend. Those students with more than one card must manage their accounts carefully.

2. Credit cards should not be used for tuition and their use should be limited for school related expenses. Student loans are far more cost effective. Student loans typically have a much lower interest rate and repayment usually does not begin until six months after graduation from college.
3. Students must differentiate between wants and needs. Wanting something and needing something are entirely different. Stop and think before purchasing.
4. Credit cards are just a convenience. They don't change one's socioeconomic status. Buy *only* what you *know* you can afford to repay.

**SLIDE 19 - MULTIPLE CHOICE QUESTION - IT'S BEST TO ...**  
(Continuation of Dos and Don'ts)

Correct Answer = B

**5. PAY YOUR CREDIT CARD BILL OFF EACH MONTH OR AT LEAST MAKE MORE THAN THE MINIMUM MONTHLY PAYMENT**

- Refer to the bottom of page 5 in the primer.

If one had a credit card debt of \$2000 with an APR of 18%, stopped using their card, and made just the minimum monthly payment based on 2% of the outstanding balance, it would take 30.8 years to pay off the debt and the payout would be \$6931!

- Instruct students to look at the table on the inside front cover of the primer so they can see how long it takes to pay off credit card debt.
- Emphasize the importance of paying **more than the minimum monthly payment**. Paying just \$10 more a month makes a huge difference. This is reflected in the second table on the inside cover. For example:

\$1000 debt, 18% APR, MMP - payout \$2931, payout time 19.3 years

\$1000 debt, 18% APR, MMP + \$10 - payout \$1540, payout time 5.7 years

**SLIDE 20 - DOs AND DON'Ts** (Continuation of Dos and Don'ts)  
(Page 6 in the primer)

6. Credit card payments should not be skipped even if the credit card issuer says it's okay. Stress to students that they will owe more the next month even if they don't use their credit card because of the continued accrual of interest.



7. It is extremely important that students learn to pay their bills on time. When credit card payments are received past the due date, students will be assessed a late fee and they will likely be assigned a high penalty rate APR. They also risk a poor credit score because late payments may be reported to the credit reporting agencies.
8. Students should avoid exceeding their credit limit and thereby avoid over-credit limit fees and a high penalty rate APR.

## **SLIDE 21 - DOs AND DON'Ts (Continuation of Dos and Don'ts)**

(Page 7 in the primer)

9. **NEVER, NEVER, NEVER USE ONE CREDIT CARD TO PAY ANOTHER**  
When short on funds, some students will resort to taking out a cash advance on one card to make a payment on another card. This action simply creates more debt and should be avoided. Students, instead, should use savings, responsibly borrow money to make a payment or advise their bank that they're having trouble meeting their obligation and ask for help. Instructors should stress that this problem will be avoided if one has only one card!
10. Banks will raise a credit limit when they see that an individual responsibly pays their bills on time. You don't have to accept a raised credit limit. Students should know that they could advise their credit card issuer that they wish to remain with their lower limit. (A lower limit, hopefully, will prevent overspending.)

## **SLIDE 22 - EVEN MORE DOs AND DON'Ts (Continuation of Dos and Don'ts)**

(Page 7 in the primer)

11. If one keeps a revolving balance, payment should be mailed as soon as possible to reduce the average daily balance and, therefore, reduce the interest paid on the account. (Described earlier on page 3.)
12. Credit card receipts should be kept and compared to the charges appearing on one's monthly credit card statement. If an error exists, the issuer should immediately be notified. To avoid identity theft, after accuracy has been verified, receipts should be shredded.
13. Immediately notify the credit card issuer when moving from one location to another. Many students needlessly end up paying late fees because their issuer is not advised of their new mailing address. By the time the mail catches up with them, their statement is already overdue!



## **SLIDE 23 - THERE'S ALWAYS A SOLUTION**

(Page 7 in the primer)

1. The worst thing a student can do if faced with out-of-control credit card debt is ignore the problem.
2. First, they should stop using their credit card.
3. Students should talk to their bank representative and ask for help. They may offer a more manageable payment plan.
4. If stressed out, a student should talk to a school counselor, parent, or a therapist.
5. If necessary, contact the National Foundation for Credit Counseling to learn about debt consolidation programs. They can be contacted at (800) 388-2227, or at [www.nfcc.org](http://www.nfcc.org).
6. Emphasize that there is **always a solution** to this problem.

## **SLIDE 24 - CREDIT REPORTS & CREDIT SCORES**

(Page 8 in the primer)

### **1. CREDIT REPORTS**

- A credit report is a collection of information obtained from creditors reflecting the extent of one's credit and one's payment history.
- It's like a report card or a financial resume that reflects how one has handled their bills.
- The three major reporting agencies are Equifax, Experian and Trans Union.
- Lenders buy these reports to determine whether or not they will grant you credit and at what rate.
- A new law allows you to obtain a free annual credit report. Call 877-322-8228 or go to [www.annualcreditreport.com](http://www.annualcreditreport.com). (Both are listed in the primer.)
- Negative information stays on a credit report for seven years.
- Bankruptcies stay on a credit report for ten years.

**SLIDE 25 - CREDIT REPORTS & CREDIT SCORES** (Continuation of Credit Reports & Credit Scores)  
(Page 8 in the primer)

**2. CREDIT SCORES**

- A credit score is a numeric value given to you by a lending institution or a credit-reporting agency. It's typically referred to as a FICO score. The three national credit bureaus have their own assigned names for their FICO scores.
- The higher the number, the better the score. The scale ranges from 300 to 850.
- Scores are based on:
  - Whether or not you pay your bills on time. (This is an important variable that goes into your FICO score).
  - Number of open credit accounts.
  - Balances on accounts.
  - Number of years one has had credit.
  - Number of inquiries on the account. For example, every time a balance transfer is made or a new account is opened, an inquiry is placed on the report. Numerous inquiries are looked down upon because it is believed that numerous inquiries correlate highly with individuals who do not pay their bills on time.

**SLIDE 26 - MULTIPLE CHOICE QUESTION - YOUR CREDIT HISTORY IS**

Correct Answer = D

**SLIDE 27 - CONSEQUENCES OF IRRESPONSIBLE CREDIT CARD USE**

(Page 8 in the primer)

Students who engage in irresponsible credit card behavior face serious consequences after they graduate.

1. They may be denied credit.
2. Or, have to pay high interest rates. Homes, autos, consumer electronics will all cost more for those with a poor credit rating.

3. It may be difficult to rent an apartment if the rental agency learns that an individual doesn't pay their bills on time.
4. Recruiters regularly check credit reports before hiring. Many qualified individuals have been denied employment because of a poor credit history.
5. Graduate schools may reject applicants because of a poor credit history.
6. Auto insurance rates can be higher for those with a poor credit history.

### **SLIDE 28 - NEED MORE INFORMATION?**

(Page 9 in the primer)

Advise students that there are many helpful Internet sites. Just check out the web. Several good sites are printed on page 9 of the primer.

### **SLIDES 29 & 30 - IMPORTANT TERMS**

(Page 10 in the primer)

Suggest to students that they become familiar with the credit card terminology printed on page 10 of the primer.

### **SLIDE 31 - IMPORTANT INFORMATION**

(Back, inside cover of the primer)

So that they are prepared for an emergency, advise students to use this page to list important information. In case their credit card is lost or stolen, they will have all necessary information available to report to their credit card issuer.

If you notify the issuer before a stolen card has been used, you will not be liable for unauthorized charges.

If you notify the issuer of a theft after the card has been used, you may be liable for up to \$50 per card for the charges.

You are not liable for any amount if only your account number was used illegally. That is, your card was not stolen.